

*Natural Resource & Environmental Economics Working Group
Department of Agricultural Economics
Texas A&M University
College Station, TX 77843-2124*

October 22, 2008

Larry J. Prather, Assistant Director of Civil Works
larry.j.prather@usace.army.mil
441 G Street, NW
Washington, DC 20314-1000

RE: 2008 draft Principles and Guidelines

Thank you for recording my prior letter of October 15, 2008 commenting on the draft P&Gs. I wish to make some observations on a 2nd topic.

The draft's pronouncement of a 1.5 threshold benefit-cost ratio is generating some consternation among reviewers, which is to be expected. However, it must be evident to most professionals in this area that there is not adequate federal monies to assist all projects with a $BCR > 1$, which is to say that the opportunity cost of a federal dollar is indeed greater than 1. Moreover, planning and studying and debating federal projects is costly too, so it is doubly sensible to firmly recognize a demanding threshold. Whether 1.5 is the "right" number is difficult to know at this time, but the general ideal of a greater than 1 requirement has considerable merit in my opinion.

Two additional points on this issue:

- If the prime rationale for the 1.5 threshold rests with the opportunity cost of federal funds, perhaps it is reasonable to establish a floating threshold that is regularly revised and is founded on actual estimates of these opportunity costs. The water project discount rate is revised annually on the basis of observed bond fund rates. Maybe a similar (though not annual) process is commendable for the threshold BCR. I am thinking of a 5-year lock-in, with the next revision based on study results for the intrinsic returns of most worthy, yet unfunded projects.
- Given the common situation in which important project effects are not monetized, it is likely that threshold BCR is not truly a pivotal matter. That is, with so many project impacts falling into validly countable but nonNED accounts such as the EQ, PS, and OSE accounts, the normatively resolved tradeoffs among these dissimilar effects is the bigger challenge.

Sincerely,

